VZCZCXRO3208
RR RUEHLH RUEHPW
DE RUEHIL #2465/01 2041212
ZNR UUUUU ZZH
R 221212Z JUL 08
FM AMEMBASSY ISLAMABAD
TO RUEHC/SECSTATE WASHDC 7888
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
RHEHNSC/NSC WASHINGTON DC
RUEHNE/AMEMBASSY NEW DELHI 3549
RUEHKA/AMEMBASSY DHAKA 2271
RUEHLM/AMEMBASSY COLOMBO 1506
RUEHLO/AMEMBASSY LONDON 8331
RUEHML/AMEMBASSY MANILA 3002
RUEHKP/AMCONSUL KARACHI 0060
RUEHLH/AMCONSUL LAHORE 5804
RUEHPW/AMCONSUL PESHAWAR 4583

UNCLAS SECTION 01 OF 02 ISLAMABAD 002465

SIPDIS

E.O. 12958: N/A
TAGS: ETRD ECON EINV PK
SUBJECT: PAKISTAN'S 2008-2009 TRADE POLICY

Summary
- - - -

¶1. (U) The Prime Minister announced Pakistan's 2008-09 Trade Policy on July 19. The policy sets an export target of USD 22.1 billion and a target growth rate of 15 percent. It expands the import items list from India with a view to decreasing the cost of raw materials and manufacturing inputs. Pharmaceuticals, horticulture, gems and jewelry, and halal food are set to benefit from increased subsidies and promotion, but notable was the lack of significant concessions for the textile industry. The government also proposed reactivating the Trade Export Promotion Board and revamping the Trade Development Authority of Pakistan. The policy appears to lack strategic focus or direction, and trade and industry leaders have criticized it as lacking adequate business-friendly measures to help in promoting trade. End Summary.

Challenges and Goals
- - - - - - - - - - - -

¶2. (U) In his speech outlining the 2008-09 Trade Policy, the Prime Minister emphasized the challenges facing Pakistan's export industries. These challenges were both internal, involving political and security problems as well as power shortages, and external: the high price of oil, tariff and non-tariff trade barriers, the rising cost of raw materials, and increasing competition in international markets. The statement made a pointed reference to visa policies and negative travel advisories of other countries that discourage business travel both into and out of Pakistan. For the coming year, the government's goals for trade will focus on export diversification, measures to increase competitiveness, and more effective trade promotion. The GOP has set an export target of USD 22.1 billion, with a export growth target of 15 percent, the same rate that was achieved in FY2007-08.

Imports from India
- - - - - - - - - -

¶3. (U) The new policy features an expanded list of 136 items that are permitted for import from India, including chemicals, raw materials and manufacturing inputs, machinery and parts, pharmaceuticals, and fertilizer. Among the new items are scientific, academic, and reference books, as well as diesel and fuel oil used for electricity generation or the manufacturing process. Other input items, such as stainless steel and yarn, which previously could only be imported by train, can now be imported by truck via the Wagah border. According to the statement, the cheaper cost of Indian goods, particularly less transportation cost, would help to make Pakistani goods produced with these inputs more cost competitive internationally.

Export Diversification
- - - - - - - - - - - - -

¶4. (U) The policy statement lists export diversification as part of the export strategy. Among the diversification measures are incentives and concessions for pharmaceuticals, which will benefit from an accelerated plant depreciation allowance of 90 percent in the first year. The policy also names horticulture as an export industry and will allow it to benefit from a variety of tax credits. Gold, silver, platinum, palladium, diamonds, and other precious stones will be exempt from customs duties and sales tax. A Halal Certification Board will be established under the Ministry of Science and Technology in order to enforce halal food standards and create certification mechanisms for the export of halal food products.

Increasing Competitiveness
- - - - - - - - - - - - - - -

¶5. (U) Additional competitiveness measures are focused on increasing government support for exporters. The trade policy calls for reactivation of the Pakistan Export Promotion Board (PEPB), which was originally established in 1963 and replaced by the Trade Development Authority of Pakistan (TDAP) in 2006. The reconstituted PEPB, chaired by the Prime Minister, will focus on more effective GOP agency coordination on trade issues. The policy also seeks to make TDAP more effective by restructuring the organization so as to make it more responsive to exporters' needs. TDAP is also tasked to open an office in the Federally Administered Northern Areas in order to "realize the full export potential of Northern Areas."

ISLAMABAD 00002465 002 OF 002

Comment

¶6. (U) The 2008-09 Trade Policy seems to be primarily a collection of edits to the customs and excise duty schemes. Trade and industry leaders have been very critical of the new policy in the press, saying it does not give clear direction to trade promotion and that it is deficient in business friendly policies. The textile sector, which produces 57 percent of Pakistan's export goods annually, is conspicuously absent, although there has been some press speculation that a textiles subsidy package will be announced at a later date. Other than tasking the Ministry of Health to draw up a proposal for creation of bio-availability and bio-equivalency laboratories in support of the pharmaceutical industry, support for research and development is also absent from the policy. A common complaint in the business community has been that due to trade restrictions, there is insufficient access to cheaper Indian goods that could help reduce production costs, and the policy is commendable in proposing greater trade with India. However, overall, the policy seems to do nothing more than tinker with customs duties and tax credit schemes rather than provide a comprehensive strategy to achieve Pakistan's trade goals. End comment.

PATTERSON